

## § 1786.208

(B) The payment amounts that would be required during the interval on the amounts being refinanced or prepaid if the interest rate on the loan were equal to the then current cost of funds to the Department of the Treasury for obligations of comparable maturity to the loan being refinanced or prepaid.

(b)(1) Except as provided in paragraph (b)(2) of this section, the premium provided by paragraph (a)(1) of this section shall be required for refinancing or prepayment under this section.

(2) In the case of a loan advanced under an agreement that permits the refinancing or prepayment of the loan advance based on the payment of 1 year of interest on the outstanding principal balance of the loan advance, a borrower may, in lieu of the premium required by paragraph (a)(1) of this section, pay a premium as provided by:

(i) Paragraph (a)(2) of this section, if the loan advance has reached the 12-year maturity required under the loan agreement for the refinancing or prepayment; or

(ii) Paragraph (a)(3) of this section, if the loan advance has not reached the 12-year maturity required under the loan agreement for the refinancing or prepayment.

## § 1786.208 Increased principal.

A borrower can meet the premium requirements by increasing the outstanding principal balance of the loan advance that is being refinanced. If it does so the borrower shall make a payment at the time of the refinancing equal to 2.5 percent of the amount of the premium that is added to the outstanding principal balance of the loan.

## § 1786.209 Outstanding loan documents.

(a) Except as expressly provided in this subpart, the borrower shall comply with all provisions of its RUS loan contract, its outstanding notes issued to RUS, and the RUS mortgage.

(b) Nothing in this subpart shall affect any rights of supplemental lenders under the RUS mortgage or the rights of any other creditors of the borrower.

(c) Nothing in this subpart shall prohibit a borrower from making prepayments on any loans pursuant to the RE

## 7 CFR Ch. XVII (1–12 Edition)

Act in accordance with the terms thereof or as may be otherwise permitted by law.

## § 1786.210 Approvals.

The borrower shall be responsible for obtaining all approvals necessary to consummate the transaction as required by the refinancing note, including such approvals as may be required by regulatory bodies and other lenders.

## PART 1788—RUS FIDELITY AND INSURANCE REQUIREMENTS FOR ELECTRIC AND TELECOMMUNICATIONS BORROWERS

### Subpart A—Borrower Insurance Requirements

Sec.

1788.1 General and definitions.

1788.2 General insurance requirements.

1788.3 Flood insurance.

1788.4 Disclosure of irregularities and illegal acts.

1788.5 RUS endorsement required.

1788.6 RUS right to place insurance.

1788.7–1788.10 [Reserved]

### Subpart B—Insurance for Contractors, Engineers, and Architects, Electric Borrowers

1788.11 Minimum insurance requirements for contractors, engineers, and architects.

1788.12 Contractors' bonds.

### Subpart C—Insurance for Contractors, Engineers, and Architects, Telecommunications Borrowers

1788.46 General.

1788.47 Policy requirements.

1788.48 Contract insurance requirements.

1788.49 Contractors' bond requirements.

1788.50 Acceptable sureties.

1788.51–1788.53 [Reserved]

1788.54 Compliance with contracts.

1788.55 Providing RUS evidence.

AUTHORITY: 7 U.S.C. 901 et seq.; 7 U.S.C. 1921 et seq.; 7 U.S.C. 6941 et seq.

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### Subpart A—Borrower Insurance Requirements

## § 1788.1 General and definitions.

(a) The standard forms of documents covering loans made or guaranteed by

## Rural Utilities Service, USDA

## § 1788.2

the Rural Utilities Service contain provisions regarding insurance and fidelity coverage to be maintained by each borrower. This part implements those provisions by setting forth the requirements to be met by all borrowers.

(b) As used in this part:

*Borrower* means any entity with any outstanding loan made or guaranteed by RUS.

*Irregularity* has the meaning found in § 1773.2.

*Loan documents* means the loan agreement, notes, and mortgage evidencing or used in conjunction with an RUS loan.

*Mortgage* means the mortgage, deed of trust, security agreement, or other security document securing an RUS loan.

*Mortgaged property* means any property subject to the lien of a mortgage.

*RUS* means the Rural Utilities Service and includes the Rural Telephone Bank.

*RUS loan* means a loan made or guaranteed by RUS.

(c) RUS may revise these requirements on a case by case basis for borrowers with unusual circumstances.

### § 1788.2 General insurance requirements.

(a) Borrowers will take out, as the respective risks are incurred, and maintain the classes and amounts of insurance in conformance with generally accepted utility industry standards for such classes and amounts of coverage for utilities of the size and character of the borrower and consistent with Prudent Utility Practice. Prudent Utility Practice shall mean any of the practices, methods, and acts which, in the exercise of reasonable judgment, in light of the facts, including but not limited to, the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry in the case of an electric borrower or of the telecommunications industry in the case of a telecommunications borrowers prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result consistent with cost-effectiveness, reliability, safety, and expedition. It is recognized that Prudent Utility Practice is not in-

tended to be limited to optimum practice, method, or act to the exclusion of all others, but rather is a spectrum of possible practices, methods, or act which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with cost-effectiveness, reliability, safety, and expedition.

(b) The foregoing insurance coverage shall be obtained by means of bond and policy forms approved by regulatory authorities having jurisdiction, and, with respect to insurance upon any part of the mortgaged property securing an RUS loan, shall provide that the insurance shall be payable to the mortgagees as their interests may appear by means of the standard mortgagee clause without contribution. Each policy or other contract for such insurance shall contain an agreement by the insurer that, notwithstanding any right of cancellation reserved to such insurer, such policy or contract shall continue in force for at least 30 days after written notice to each mortgagee of suspension, cancellation, or termination.

(c) In the event of damage to or the destruction or loss of any portion of the mortgaged property which is used or useful in the borrower's business and which shall be covered by insurance, unless each mortgagee shall otherwise agree, the borrower shall replace or restore such damaged, destroyed, or lost portion so that such mortgaged property shall be in substantially the same condition as it was in prior to such damage, destruction, or loss and shall apply the proceeds of the insurance for that purpose. The borrower shall replace the lost portion of such mortgaged property or shall commence such restoration promptly after such damage, destruction, or loss shall have occurred and shall complete such replacement or restoration as expeditiously as practicable, and shall pay or cause to be paid out of the proceeds of such insurance form all costs and expenses in connection therewith.

(d) Sums recovered under any policy or fidelity bond by the borrower for a loss of funds advanced under a note secured by a mortgage or recovered by any mortgagee or holder of any note secured by the mortgage for any loss